

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 EB-03 SIL-01 OMB-01 TRSE-00 NSC-05

NSCE-00 INR-05 CIAE-00 SP-02 PRS-01 L-01 /042 W

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R 111718Z MAR 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7144

INFO USMISSION EC BRUSSELS

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LIMDIS

E.O. 11652: NA

TAGS: EGEN, GW, US

SUBJ: CHANCELLOR ON US AND FRG ECONOMIC SITUATIONS:
IMPLICATIONS FOR NORTH/SOUTH DIALOGUE.

1. DURING UNDER SECRETARY ROBINSON'S DISCUSSION
WITH CHANCELLOR SCHMIDT ON MARCH 10, THE CHANCELLOR
SAID HE WAS PERSUADED THAT THE AMERICAN ECONOMY
WAS IN A VIABLE RECOVERY AND THAT THE UNITED STATES
WAS NOT JUST EXPERIENCING AN UPWARD ECONOMIC "BUMP".

2. HE WAS LESS OPTIMISTIC CONCERNING THE GERMAN
ECONOMY BECAUSE OF ITS HEAVY DEPENDENCE ON EXPORT
PERFORMANCE. HE SAID THAT THIS APPLIED TO OTHER
EUROPEAN COUNTRIES TO A GREATER OR LESSER DEGREE.
HE SAID THAT THERE HAD BEEN MASSIVE FRG FISCAL
DEFICITS DURING THE PAST YEAR AND THAT THE FRG HAD
CREATED ALL THE DOMESTIC DEMAND IT COULD. IN FACT,
HE SUGGESTED IT MIGHT NOW BE TIME FOR A RETRENCHMENT
TO KEEP INFLATION UNDER CONTROL. HE WAS PLEASED
THAT GERMAN INFLATION WAS NOW GETTING DOWN NEAR THE
5 PERCENT LEVEL, AND HE HOPED TO GET IT LOWER

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BEFORE TOO LONG. HE WAS WORRIED ABOUT UNEMPLOYMENT.

HE ADMITTED THAT THE SEASONALLY ADJUSTED RATE WAS LOWER THAN THE 5.9 PERCENT UNADJUSTED RATE. HOWEVER, HE WAS OF THE OPINION THAT SEASONAL FIGURES WERE ONLY VALID IN NORMAL TIMES. IN THE PRESENT SITUATION, HE THOUGHT THE SEASONAL FIGURE WAS MEANINGLESS. IT IS THE CYCLICAL RATHER THAN SEASONAL PROBLEMS WITH WHICH WE HAVE TO DEAL. IF CONSTRUCTION WORKERS HAVE NO WORK ALL YEAR, THE SEASONS PLAY NO ROLE.

3. THE CHANCELLOR REFERRED TO FORTHCOMING WAGE NEGOTIATIONS FOR LARGE SECTORS OF THE ECONOMY. LABOR IS ASKING FOR SOME 8 PERCENT, AND HE EXPECTS TO KEEP IT TO 5 - 6 PERCENT. AS FAR AS THE PUBLIC EMPLOYEES ARE CONCERNED, HE WOULD LIKE TO KEEP THE INCREASE EVEN LOWER. IN SUM, HE EXPECTED THAT REAL WAGES IN 1976 WOULD RUN BETWEEN -1 PERCENT AND # 1 PERCENT, AS COMPARED WITH 1975. THE CHANCELLOR, THEREFORE, SAID THAT HE WOULD NOT BE SURPRISED IF WE HAD A SERIES OF STRIKES IN GERMANY DURING THE COMING MONTHS.

4. IN THE CHANCELLOR'S OPINION, IN VIEW OF THE HEAVY DEPENDENCE OF THE FRG, AND OTHER EUROPEAN COUNTRIES, ON EXPORTS, THE RESTORATION OF NORMAL CONDITIONS IN THE GLOBAL ECONOMY WAS OF GRAVER IMPORTANCE FOR EUROPE THAN FOR THE UNITED STATES. FOR THIS REASON, HE THOUGHT THE NORTH/SOUTH DIALOGUE HAD AN IMPORTANT ROLE TO PLAY IN THE RECOVERY OF THE GLOBAL FUNCTIONING OF THE ECONOMY. THE CHANCELLOR

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DID NOT EXPECT THAT AGREEMENTS COULD BE WORKED OUT
IN A VERY SHORT TIME. HE THOUGHT, HOWEVER,
IT WAS ESSENTIAL THAT WE GRADUALLY CREATE AN
ATMOSPHERE WHERE THE LESS DEVELOPED BELIEVED WE ARE
GOING TO DO SOMETHING TO DEAL WITH THEIR PROBLEMS.
HE FEARED THAT A FAILURE TO DO SO COULD LEAD TO
DISASTROUS IRRATIONAL ACTIONS, CITING THE POSSIBILITY
OF A MASSIVE WITHDRAWAL OF FUNDS FROM THE WEAKENING
BRITISH POUND.

5. THE CHANCELLOR REEMPHASIZED THE NEED TO CREATE
CONFIDENCE IN THE INTENTIONS OF DEVELOPED COUNTRIES
TO TAKE THE DIALOGUE SERIOUSLY AND NOT JUST GIVE IT
LIP SERVICE, AND THAT THE DIALOGUE IS BOTH IN THE
INTEREST OF THE DEVELOPING AND THE INDUSTRIALIZED
WORLD. HE THOUGHT THAT WE SHOULD AVOID STATEMENTS
SUGGESTING THAT THIS IS NOT A SERIOUS EXERCISE. BOTH
THE CHANCELLOR AND THE UNDER SECRETARY AGREED THAT
THE MARCH/APRIL MEETINGS OF THE CIEC COMMISSIONS
WERE OF GREAT IMPORTANCE, PARTICULARLY IN MAINTAINING
THE ATMOSPHERE, WHICH -- THE CHANCELLOR IS PERSUADED -- IS SO
IMPORTANT.

HILLENBRAND

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